

April 5, 2013

Lisa M. Jones
Manager, CDFI Bond Guarantee Program
CDFI Fund, Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Jones,

Thank you for the opportunity to provide comments on the CDFI Fund's Interim Rule for the CDFI Bond Guarantee Program (the Program). CDFIs across the nation recognize the potential of this new source of long-term financing to better serve low-wealth communities. We, the undersigned organizations, are writing to urge the CDFI Fund to ensure that the Program supports CDFIs doing what they do best: employing unique expertise to serve the capital needs of low-wealth, low-income, and other disadvantaged people and communities. We are confident that the CDFI Fund will work to do just that.

Ensure the Program Fits CDFIs

Broad Utility of the Program: We support the Fund's decision to allow Bond Loans in amounts as small as \$10 million, and to allow disbursements on a draw-down basis. The Fund should seek further recommendations from CDFIs to encourage diversity by geography, CDFI type, and asset class.

Application Process: The Fund's application review process should be iterative and interactive to ensure Program parameters do no harm to real world CDFI operations.

Align the Bond Program with the Experiences and Needs of the CDFI Industry

Use of Proceeds: The Fund should broaden the eligible use of Bond Loan proceeds to include second lien loans, subordinated loans, secondary capital investments in CDFI credit unions, and regulatory capital investments in CDFI banks. These are common CDFI capital uses. Eligible CDFIs should also be able to utilize Bond Loan proceeds to refinance their own debt, as well as to refinance Secondary Loans.

Small Business Financing: The proposed collateral and Relending Account requirements make it very difficult, if not impossible, for CDFIs to use bond proceeds to finance small businesses. The Fund should work with the CDFI Industry to overcome these barriers to small business financing.

Limited Recourse Structures: The proposed requirements to pledge hard collateral as security and agree to 100% recourse debt would either severely limit CDFI participation in the program or breach existing debt relationships with private capital providers. The Program must allow existing Affiliates or Newly-Formed Affiliates of Eligible CDFIs (NFAs), created solely for the purpose of the Program, to be Eligible CDFIs. Under this concept, the parent CDFI would be obligated to capitalize the Affiliate or NFA and to provide additional Credit Enhancement as needed to fully protect the Guarantee. This would also require expedited CDFI certification processes for existing Affiliates and NFAs.

Pricing: Establishing a pricing collar on Secondary Loans will not improve the probability of repayment and may restrict Eligible CDFIs' ability to manage risk.

Relending Calculation: The Relending Account is defined as "10 percent of the principal amount outstanding of Bond Issue, minus the 3 percent risk-share pool." To maximize the revolving capacity of

the Bond Program, we recommend that the “principal amount outstanding” be defined as the total amount of the initial Bond Issue¹. This will enable CDFIs to put more capital to work.

Relending Constraints: To ease the challenges of asset-liability matching, we recommend a 12-month window to reduce Relending Subaccount balances, similar to reinvestment provisions that exist in the NMTC program. In addition, the Fund should measure the Relending Subaccount at a given time (i.e. on a date certain such as 12/31.). This would make it possible for Eligible CDFIs to adjust accordingly, and for the Master Servicer/Trustee to monitor those accounts effectively, without triggering a series of “Notification Dates” and “Calculation Dates,” as outlined in the Interim Rule.

Disbursement of Bond Loan Proceeds: We support allowing Eligible CDFIs up to five years to disburse Bond Loan proceeds. Within this timetable, we recommend that the Fund adjust the requirement for Secondary Loan commitments so that Eligible CDFIs have three years to commit Secondary Loans.

Reporting: The Fund should create reporting requirements for the Bond Program in conjunction with existing data collection systems, formulated in collaboration with the CDFI industry.

CRA Credit: The Program should offer CRA investment credit for the provision of Credit Enhancement to an Eligible CDFI or Bond Issue, and other activity that does not involve direct investments.

Accessing Capital Markets: The founding idea of Bond Program legislation was to help CDFIs access capital markets. We are pleased that the Interim Rule envisions a path to capital markets and we strongly encourage the Treasury to work with the CDFI Industry to pursue this option.

Address Outstanding Concerns as Soon As Possible

Covenants: Covenants should be developed uniquely for each Eligible CDFI in each Bond Issue. We recommend that the Fund allow Eligible CDFIs to utilize a “toolbox” of credit enhancements including but not limited to overcollateralization, third-party guarantees, bond insurance, and affirmative covenants.

Qualified Issuers: Qualified Issuers will exercise significant discretion. The Fund should place a high priority on a Qualified Issuer’s mission orientation, including its history of mission-based financing, and allow for contracting with third parties to meet required criteria for servicing and program administration. Otherwise the Program takes on substantial risk that it will not serve the purpose the statute intends.

Implementation Documents: The CDFI Fund has stated that the Notice of Guarantee Authority and other supporting documents will be released shortly and will present information that will answer outstanding questions about the Program’s operation. We recommend that the Fund solicit public comment on these materials while implementing the program in a way that does not delay execution.

Prepayments: The Fund should clarify that the 3 percent risk-share pool would not be subtracted from amounts permitted to be in the Relending Accounts at any time during which the outstanding principal amount of Bond Loans equals or is lower than the 3 percent risk-share pool amount.

Conclusion

Throughout its history, the CDFI Fund has demonstrated flexibility and an appreciation for the unique contributions of different types of CDFIs. This operating philosophy will be particularly important in ensuring the success of the CDFI Bond Guarantee Program. Please contact Opportunity Finance Network

¹Relending Account is defined in statute as “10 percent of the principal amount outstanding of Bond Issue, minus the 3 percent risk-share pool.” Thus, in a \$100 million Bond Issue containing a single Eligible CDFI, the maximum amount of funds that could be held in the Relending Subaccount would be \$9.7 million (i.e. Relending Account = 0.10 x (principal outstanding - 3)) irrespective of how much the Eligible CDFI has “drawn-down.”

(Jennifer Vasiloff, jvasiloff@opportunityfinance.net) or any of us with questions about these recommendations.

Sincerely,

Baltimore Community Lending
Boston Community Capital
Business & Community Lenders of Texas
Calvert Foundation
CDFI Coalition
Charter Schools Development Corporation
Chicagoland Black Chamber of Commerce, Inc.
Citizen Potawatomi Community Development Corporation
Coastal Enterprises, Inc.
Colorado Enterprise Fund
Community Capital of Vermont
Community Concepts Finance Corporation
Community Housing Capital
Community Reinvestment Fund
Delta Diamond Recycling, LLC
El Paso Collaborative for Community & Economic Development
Enterprise Community Loan Fund
Enterprise Community Partners
Entrepreneur Fund
FAHE, Inc.
Finance Fund
Hope Enterprise Corporation
International Bank of Chicago
Invest Detroit
Kentucky Highlands Investment Corporation
Local Initiatives Support Corporation
Los Angeles LDC, Inc.
Low Income Investment Fund
Lowcountry Housing Trust
MDK Consulting Group
Mercy Housing, Inc.
Mortgage Financial Concepts
NCB Capital Impact
New Hampshire Community Loan Fund
New Jersey Community Capital
Northern California Community Loan Fund
Opportunity Finance Network
Partners for the Common Good
PathStone Enterprise Center
Pathway Lending
Rural Community Assistance Corporation
The Community Development Trust
The Reinvestment Fund